66th Congress, 3d Session. } HOUSE OF REPRESENTATIVES. { Report No. 1131.

REVIVE WAR FINANCE CORPORATION.

December 17, 1920.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. Strong of Kansas, from the Committee on Banking and Currency, submitted the following

REPORT.

[To accompany S. J. Res. 212.]

The Committee on Banking and Currency, to which was referred Senate joint resolution 212, to revive the War Finance Corporation, having considered the same, report it back to the House with an amendment as follows: Page 2, line 9, strike out section 2; with the recommendation that Senate joint resolution 212, as amended, do pass.

The committee recommends that section 2 of the resolution be stricken out, as the mere expression of opinion therein is not calculated to accomplish any favorable result and the committee deems it unwise to encumber the passage of the resolution by including an ineffective clause which will be fruitful of controversy and barren of results.

The committee has held hearings and has had before it for consideration the hearings held by the Committee of Agriculture of the Senate and House in joint session.

The War Finance Corporation, by the act approved March 3, 1919, was empowered to encourage exports, and for the accomplishment of this purpose was empowered to sell bonds to the extent of six times its capital stock of $500,000,000, but by the amendment of March 3, 1919, it was provided that the aggregate of the advances made for the purpose above set forth remaining unpaid shall never at any time exceed the sum of $1,000,000. There was an inevitable delay in the organization of the corporation for the purpose of carrying out the duties imposed by this act, but during the short period it operated it advanced for the purpose of financing the exportation of domestic products the following amounts:

Commodities.	Countries.	Amounts.
Agricultural implements	Great Britain, France, and Belgium	$4,000,000.00
Condensed milk	England and France	5,000,000.00
Cotton	Czechoslovakia	9,322,117.27
Electrical equipment and supplies	Great Britain, South Africa, Australia, France, Belgium, and Italy.	10,796,537.00
Grain, flour, and foodstuffs	Belgium	12,229,000.00
Locomotives	Poland	5,000,000.00
Total		46,347,654.27

While it would seem from the amount advanced that no great demand has been made upon the corporation for advances, the fact is when on May 1, 1920, the corporation suspended, upon the request of the Secretary of the Treasury, proposals receiving the approval of the directors of the corporation amounted to $100,000,000, 75 per cent of which were for agricultural purposes. The proposals thus approved by the board were as follows: $17,500,000 of copper, $2,200,000 fabricated steel to Italy; $5,000,000 "Black Patch" tobacco from Tennessee and Kentucky, $4,000,000 cotton to Czechoslovakia for a large southern exporter; $25,000,000 cotton to Czechoslovakia for a group of southern bankers; $3,000,000 for cotton to Italy by a group of bankers; $9,000,000 by a group of bankers for export of cotton to Italy; $24,000,000 for the export of cotton by a syndicate of banks headed by one ot the largest national banks in the United States; $2,400,000 by a group of bankers for coal to Italy; $4,000,000 by a group of bankers for cotton to Italy; $4,000,000 for ships to be bought or constructed in this country for Italy; in all, $100,000,000 in applications promising practical results with adequate security, according to the opinion of the directors of the War Finance Corporation.

When the Secretary of the Treasury requested the Directors of the War Finance Corporation to suspend operations, it resulted in the adoption by the directors of the corporation on May 10, of the following resolution:

Resolved, That at the request of the Secretary of the Treasury and pending further action by this board, the making by the corporation of further advances for export purposes, except pursuant to existing commitments, be suspended.

The Secretary of the Treasury has given to the committee the reasons actuating him in requesting the directors to suspend the operations of the corporation. Whether or not his action was wise or unwise is not in issue at this time. The question at issue is whether or not, in view of the conditions now existing, the operations which were suspended in May should be resumed. Necessity for the resumption of operations has been urged upon the committee by representatives of the agricultural interests of the entire country and by representatives of those who are engaged in the exportation of our products and those engaged in financing such exports.

It appears from the testimony before the committee that of the total capital stock of $500,000,000 there is on deposit in the Treasury to the credit of the corporation $370,000,000. It is agreed, however, by those who advocate the resumption of the activities of the corporation that the funds necessary to accomplish the purpose of the law can best be secured by the sale of bonds of the corporation. During the period of its operation it sold only $200,000,000 of bonds. This issue of $200,000,000 of bonds, bearing interest at 5 per cent, was disposed of within five days notwithstanding that a great press agency erroneously announced on the second day that the entire amount had been subscribed on the preceding day. This would indicate that there is a ready market for the bonds of this corporation, and the former managing director of the corporation, who is familiar with the conditions of the market to-day, is emphatically of the opinion that an issue of $200,000,000 of its bonds at this time would readily be accepted by the investing public.

The statement of the former managing director is that during the period of operation in the great majority of cases where the corporation approved a request for a loan its approval resulted in the purchase by the investing public of the securities of the exporter, and, therefore, that the benefit which resulted from its activities was far greater than is indicated by the comparatively small amount of its advances.

While it may be argued with some force that when the corporation suspended its business on May 1, 1920, there was an increase in the volume and the dollar value of our exports, it is true that shortly after the suspension of the operations of this corporation our exports began to decrease until the month of November, 1920, when there was a marked decrease in the exportation of commodities and especially of agricultural products. The agricultural interests of the country seek a market for their goods and not merely credit to enable them to hold their products.

The European purchaser is unable to purchase unless long term credits are made. The exporters of the Nation can not grant these long term credits unless they in turn can finance them. The banks of the country appear unable to do this further than they have. It, therefore, becomes necessary to induce the investing public to put its resources at the service of the exporters and the only agency through which it appears feasible now to do that is through the War Finance Corporation, which can sell its bonds to the investing public and use its money to finance exports. It is argued that this function can be best performed by private enterprises. The War Finance Corporation has perfected its organization and without delay could afford the relief desired, and which is necessary. The private corporations proposed to be organized under the Edge Law have not perfected their organization and we could not hope to have them operated for many months to come. In addition to this the testimony shows that the promoters of the two corporations proposed to be organized under the Edge law are of the opinion that the operation of the War Finance Corporation is essential to their successful operation at this time.

The testimony is conclusive that gilt-edged collateral can be secured by our exporters, and inasmuch as by the terms of the act the War Finance Corporation can advance only to persons and corporations engaged in business in this country, and it is certain that it will function as it did during the period of its operation, making advances only where the loans were underwritten by groups of American bankers, whose indorsement guaranteed the repayment of the loan. The effect of the activities contemplated by this corporation under this resolution will be to enable the products of this country to find a market, and the money that is invested in financing the bills will go directly to the banks and other institutions which are creditors now of the producers, and who need relief, and will start a period of debt cancellation, which is the only orderly method of deflation which can be evolved.

VIEWS OF THE MINORITY.

This resolution is intended to compel the War Finance Corporation, an agency of the United States, to take action which will result in lending up to $1,000,000,000 to persons in foreign countries, chiefly on the Continent of Europe, who may want to buy American products and have not the money with which to pay.

This is not deemed prudent by the War Finance Corporation itself, by the Secretary of the Treasury, by the Federal Reserve Board, and by others who have an intimate knowledge of the financial situation.

The first objection springs from doubt as to whether this money will ever be repaid. Security apparently good will prove of little avail if the countries where the loans are made are conquered directly or indirectly by bolshevism.

The seriousness of the risk has been shown by the hesitation of American financiers to take advantage of the Edge law and organize for the purpose of doing the very thing this resolution contemplates. Because private capital will not do the thing in any important degree we are asked to hazard the public capital.

The use of public credit, however, is to be in the first instance the bait for alluring private credit. The admission is that the corporation will have to sell bonds. The hope is that thereby investors will be induced to make the European borrowers loans that can not be negotiated by processes already available.

However the end is accomplished, it will mean up to a billion dollars of addition to outstanding credits. This means further inflation up to a billion dollars. No juggling of words can overcome the fact that credit can not be extended without either taking from credit in existence or creating credit, and that what may be taken from credit in existence will be replaced by created credit.

The great majority of men versed in finance believe this is not a time for adding to the enormous volume of credit already available for the business of this country. They believe that the huge increase in this volume in the two years since the end of the war has been chiefly responsible for the industrial depression from which we are now suffering. They would view any addition to this volume as a calamity, threatening the precipitation of a financial panic, and delaying our return to sound conditions for agriculture, industry, and commerce.

Rehabilitation of the War Finance Corporation means further inflation. Further inflation means higher prices. This is an avowed object of the supporters of this resolution. In face of the fact that the whole country has been crying for a reduction in the cost of living, we are now urged to legislate so that certain classes of the people may get higher prices for their products. Once enter on legislation of that sort, where shall we stop?

The re-entry of the Government into the banking business, a function wholly objectionable of itself in times of peace, is to be accomplished at the cost of embroiling still further a most delicate and difficult financial situation. So far as the bonds of the Corporation could be sold they would displace a corresponding amount of

Treasury certificates, Liberty bonds, and Victory notes, and result in depreciating still further the market value of these securities, while adding to the difficulties of Government financing.

These bonds would have to be short-time obligations, and experts say the Corporation could by their use borrow no sum whatever at less than $6\frac{1}{2}$ per cent and no considerable amount at less than 7 per cent.

Inasmuch as there is plenty of private capital available for all safe export business, if public credit were to compete with private credit, it could offer no better terms to foreign borrowers unless it lent the money at below the market rate or accepted poorer security. Since the armistice it is estimated that private credit has been able to finance foreign lending through commercial channels to the huge extent of between three and four billion dollars. There is no proof that its resources are exhausted.

To hazard the public credit under these conditions offers but a vain hope to the classes of producers suffering from the fall in prices. It is folly or worse to delude the producers of food with the pretense that this really means any relief for them. Leaders in the live-stock industry, with most intimate knowledge of conditions, squarely declared that this measure could not directly save or even affect the situation in the matter of meat or meat products, including wool. Only as it might contribute to the general welfare could it do any good. The trouble is not that we can't sell meat and meat products to the foreigner but that he can sell to us.

The same thing is true with nearly every other variety of food. There is no world shortage of food, but, on the contrary, an apparent overproduction. No resolution of Congress will lead people to eat more than they want. To those famishing in a few regions we can lend money wherewith to buy, but that is not the purpose nor would it be the result of this resolution.

Of certain raw materials of commerce, notably cotton, we could doubtless export more, and it is eminently desirable that we should, but if it is necessary to resort to any public agency in order to accomplish this, which has not been shown, we do not believe the course contemplated by this resolution to be the prudent or justifiable method.

Attention should be directed to the improprieties and uncertainties of the resolution itself. By the law concerned we have entrusted to the corporation and to the Secretary of the Treasury certain discretionary powers. The Attorney General has declared that the corporation exercised one of these powers in suspending operations. We now contemplate substituting our judgment for that of the corporation, which we have the undoubted right to do if we proceed by a legislating process, but not otherwise. Assuming that this resolution meets that need, which is far from clear, two things remain evident:

First, the resolution does not permanently destroy the particular power involved, from which it follows that the corporation may at any time again suspend operations; and

Secondly, the resolution destroys no other discretionary power of the corporation or of the Secretary of the Treasury, from which it follows that what may be supposed to be the wish of Congress may at any time be nullified by the executive branch without any violation of duty. On the contrary, as long as these discretionary powers exist, it will be the duty of the executive agency to exercise judgment, and any official who failed in this would be false to his oath of office. If by reason of changed political conditions abroad or changed financial conditions at home it became manifestly unwise to continue lending our public credit to foreign borrowers, would any public official concerned be forgiven for refusing to exercise the discretionary powers lodged in him by law?

The resolution breathes the hope that officials still possessing these powers and sworn to use their best judgment in the exercise thereof will in fact not use their own judgment at all, but accept what may be supposed to be the judgment of Congress, though not set forth in this resolution save in one particular. The resolution says the activities of the corporation are to be revived, but gives no intimation as to how long they are to be continued. Assuming that the present administration might try to conform to what it might infer to be the legislative will, however imperfectly expressed, would the resolution in its present form impose any obligation whatever on the next administration? If it should then be apparent that the resolution had accomplished no useful purpose, but on the contrary had deluded the public, had led to inflation, had made our condition worse, had postponed the day of reckoning only to our greater hurt, could this corporation as it might then be officered honorably exercise the discretionary powers that this resolution does not touch?

If they could be exercised three months from now, why not three weeks from now, or three days after the resolution became law?

Is anything further necessary to show the folly of a resolution so loosely and ineffectively drawn? It does not embody the will of those by whom it is favored. It adds to uncertainty. It embarrasses the public officials who are trying to help carry the country through a most intricate and perplexing situation by the exercise of the soundest judgment they can command. It announces to the world our belief that this judgment is unsound. It swells our peril.

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